

DOCKET SECTION

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF UNITED STATES POSTAL SERVICE
WITNESS TREWORY TO INTERROGATORIES OF
THE OFFICE OF THE CONSUMER ADVOCATE
(OCA/USPS-T22-18-20(A), 20(C-D), 20(E) (PARTIAL), 20(F), 21-25(A), 25(C),
26(A), 26(C), 27-29)

The United States Postal Service hereby provides responses of witness Treworgy to the following interrogatories of the Office of the Consumer Advocate: OCA/USPS-T22-18-20(a), 20(c-d), 20(e) (partial), 20(f), 21-25(a), 25(c), 26(a), 26(c), 27-29, filed on September 16, 1997. Objections to interrogatories OCA/USPS-T22-20(b), 20(e) (partial), and 20(g) were filed on September 22, 1997. Interrogatories OCA/USPS-T22-25(b) and 26(b) were redirected to witness Alexandrovich.

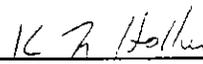
Each interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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OCA/USPS-T22-18. Please refer to LR H-247, Delivery Confirmation Infrastructure Acquisition. It is stated:

Federal Express (FedEx), UPS, and Roadway Package System (RPS) have all used information technology to increase their competitive positions. FedEx and UPS spend \$500 to \$750 million annually on track and trace and other related information technology. Analysis of competitors' market share suggests that information about delivery status helped them to sustain higher levels of growth than would have occurred with service improvement alone. Market research shows that a similar effect may be expected for Priority Mail when delivery confirmation is implemented.

Please submit all market research documents showing that "a similar effect may be expected for Priority Mail when delivery confirmation is implemented." For commercially sensitive information, OCA will agree to appropriate protective conditions.

RESPONSE:

Please see LR-H-166, Priority Mail Delivery Confirmation Market Response Research.

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OCA/USPS-T22-19. In your direct testimony at page 2, you state: "It is planned that the scanners will serve a variety of purposes, including delivery and collection management, service performance measurement, and mail item information acquisition. Delivery confirmation, the focus of this testimony, is an example of mail item information acquisition." On pages 2-3 of your direct testimony, you discuss various delivery and collection management and service performance measurement uses of the scanning system.

- a. Please describe fully when all delivery and collection management and service performance measurement uses of the scanning system will be implemented.
- b. Please describe fully how the other uses of the scanning system discussed in (a) are reflected in the Scanning Infrastructure Capital and Program Costs set forth in Worksheet C-1.

RESPONSE:

- a. Please see my response to UPS/USPS-T22-2.
- b. Service performance measurement requires no special infrastructure beyond that developed for delivery confirmation. Accordingly, Worksheet C-1 includes no associated costs and no additional costs are expected to be incurred.

Collection management utilizes the same basic software design as delivery confirmation. Accordingly, the cost of this software is included in Worksheet C-1 in the "Information systems" line under "Program costs." Other costs associated with collection management will be funded separately from those amounts presented in Worksheet C-1.

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Delivery management utilizes the same software as collection management; accordingly, these costs are reflected in Worksheet C-1. As stated in my response to USP/USPS-T22-2, delivery management requires supplemental equipment to work in conjunction with the scanners. The cost of this supplemental equipment is not reflected in Worksheet C-1 as the Postal Service plans to procure this equipment separately.

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OCA/USPS-T22-20. At page 18 of your direct testimony, you state: "I have developed certain capital and program costs for the scanner infrastructure program" You also refer to Worksheet C-1, Scanning Infrastructure Capital and Program Costs.

- a. Are these "certain capital and program costs for the scanner infrastructure program" *all* the capital and program costs for the scanner infrastructure, or are other costs of the scanner infrastructure being distributed elsewhere? Please discuss fully.
- b. Please provide all documents relating to your development of "certain capital and program costs for the scanner infrastructure program" that you consulted or generated, and that have not previously been submitted to this docket.
- c. Referring to Worksheet C-1, please discuss how and why you distributed costs to "Overall carrier cost system" each time you did so.
- d. Worksheet C-1 shows total capital costs (in thousands) of \$65,313.2 and program costs (in thousands) of \$120,543.8, for the test year. However, LR H-247 states: "Capital investment of \$628.1 million and expense investment of \$76.2 million, totaling \$704.3 million, are recommended to acquire and implement the proposed delivery confirmation system. Of this investment, \$541.4 million will be used to acquire carrier scanners" Please reconcile the Worksheet C-1 figures and the LR H-247 figures, showing the derivations of any such reconciliation.
- e. When H-247 was first distributed within the Postal Service, were there any attachments to it? If so, please provide them to the extent they have not been submitted to this docket.
- f. What was the purpose of H-247 institutionally within the Postal Service?
- g. Please provide all documents relating to return on investment of the proposed delivery confirmation.

RESPONSE:

- a. These "certain capital and program costs for the scanner infrastructure program" represent all the capital and program costs for the scanner infrastructure.

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- b. An objection to this question has been filed.

- c. Costs related to carrier scanners (including support and maintenance) are considered variable to the same degree as the carrier cost system as a whole. This approach is followed because the cost driver for scanners is the number of city and rural route routes. Since each route will receive one scanner, the scanner costs will vary directly with the carrier cost system. When one new route is added, one new scanner will be purchased. Accordingly, the distribution of scanner costs should mirror the overall carrier cost system.

Mechanically, this distribution is achieved in Worksheet C-2 by adding Cost Segments 6, 7, and 10 (all which relate to city and rural carriers) and then using the result to compute a distribution key for the \$51,851,000 of costs which are volume variable with respect to delivery confirmation.

- d. Worksheet C-1 and LR-H-247 present financial information which is not directly comparable. Worksheet C-1 presents estimated Test Year capital and program costs. LR-H-247, by contrast, refers to estimated total capital and expense investments for all relevant years, not just the Test Year. See also my response to OCA/USPS-T22-11.

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- e. A partial objection to this question has been filed. Please see Attachment A for a redacted version of the delivery confirmation cash flow summary.

- f. LR-H-247 summarizes the business case for delivery confirmation to the Board of Governors. Based on this management information, the Board approved the funding for the delivery confirmation infrastructure acquisition.

- g. An objection to this question has been filed.

Attachment A

Delivery Confirmation Cash Flow Summary

(in thousands)

Item	1997	1998
1 Capital Investment		
2 Information systems	(27,351)	(17,309)
3 Equipment	(4,582)	(496,535)
4 Project management	(384)	0
5 Training materials	(90)	(117)
6 Expense Investment		
7 Equipment supplies and support		(1,004)
8 Information systems maint & upgrade		(44,487)
9 Training development		(122)
10 Start-up labels		(1,907)
11 Operating Variance		
12 Equipment maintenance		(12,811)
13 Training		(21,911)
14 Information systems operations		(30,297)
15 Call centers		(2,017)
16 Other costs		(19,331)

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OCA/USPS-T22-21. Please confirm that at Table 7, you show information systems costs per transaction to be \$0.0047 for Priority Mail electronic delivery confirmation (PMB DC) and for Standard B electronic delivery confirmation (SBE DC). If not confirmed, please explain.

- a Please show how you derived these costs per transaction in the test year. Include in your derivation a complete explanation of how the capital and program costs in Worksheet C-1 were calculated for the test year. If depreciation methods were used, please explain those methods fully, and why they are appropriate for these types of capital and program expenditures
- b Would the derivation in (a) employ the projected volumes of 4,404,949 for SBE DC and 7,047,652 for PMB DC, as those volumes are set forth at Input Sheet B-4? Please explain.

RESPONSE:

Not confirmed. Information systems costs per unit (units and transactions may not always be interchangeable terms) are \$0.0047 for PMB DC and SBE DC.

- a. Input Sheet B-7 presents the derivation of the \$0.0047 information systems unit cost. The components of this cost estimate can be considered neither capital nor program costs; accordingly, the amount includes no such costs from Worksheet C-1.
- b. The derivation discussed in (a) employs the projected volumes of 4,404,949 for SBE DC, but not the 7,047,652 for PMB DC. Please see my response to OCA/USPS-T22-16 (line 9 refers to "Volume of Standard B electronic delivery confirmation" of "4,404,949") for an explanation of how this projected volume is used in the development of the "Mailer manifest toll-free line charges" line item in Input Sheet B-7.

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OCA/USPS-T22-22. Please refer to your response to OCA/USPS-T22-6(c): "While I have not developed estimates of the cost of obtaining delivery confirmation via the Internet, I expect that it would be less than that of using the corporate call management system."

- a. Confirm that in Table 7 of your direct testimony, you assign corporate call management costs of \$0.0847 for a manual delivery confirmation transaction. If not confirmed, please explain.
- b. Confirm that a customer using the Internet to obtain delivery confirmation information will not cause the Postal Service to incur these costs. If not confirmed, please explain.
- c. Would the costs to the Postal Service of a customer using the Internet to obtain delivery confirmation information be similar to those for electronic delivery confirmation? For Express Mail? Please discuss.

RESPONSE:

- a. Confirmed.
- b. Confirmed.
- c. I have not studied the cost to the Postal Service of a customer using the Internet to obtain delivery confirmation information. Accordingly, I am unable to estimate how these costs would relate to comparable costs for electronic delivery confirmation.

Based on my understanding of the operational process of obtaining information from the Internet (please see my response to OCA/USPS-T22-6a), I would expect that the cost to the Postal Service of a customer obtaining delivery confirmation for Standard B and Priority Mail would be similar to that of Express Mail.

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OCA/USPS-T22-23. Describe all operational difficulties, if any, that would be encountered by the Postal Service if, in addition to electronic delivery confirmation, it offered two forms of "manual" delivery confirmation, one using Internet tracking (similar to that used for Express Mail) and one using telephone tracking (i.e., using the corporate call management system). Under this hypothetical dual system for manual delivery confirmation, the customer would be charged different rates (and, potentially, a lower rate for Internet tracking). If you need to make further assumptions to complete the hypothetical, please state what those are.

RESPONSE:

I have not studied the possibility of offering two forms of "manual" delivery confirmation, but there might be several operational difficulties that would impact cost and service. Costs could increase for two reasons. First, retail procedures could be more complicated (increasing transaction time and cost) because additional explanation of delivery confirmation by clerks to customers could be required. Second, label costs could increase due to the necessity of stocking two types of labels at the retail window.

Customer service could also be adversely affected for similar reasons. A customer may be confused by the offering of two similar products and, consequently, purchase a product which does not meet her needs. Moreover, the presence of two similar sets of delivery confirmation labels could increase the likelihood of the clerk using the wrong label, resulting in the customer being unable to access the delivery confirmation information in the manner she requested.

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OCA/USPS-T22-24. At Input Sheet B-6, corporate call management project attributable costs are said to be \$288,576,217. The figure refers one to footnote 3, which states: "Based on information provided by USPS Marketing Department for FY 1999 full up corporate call management project budget".

- a. Please describe in full the derivation of these corporate call management project attributable costs.
- b. Please provide all documents from the Marketing Department that you consulted in the preparation of your testimony on these costs.

RESPONSE:

a-b. The following spreadsheet, which reproduces all salient information provided in various forms by officials in the Postal Service Marketing Department, presents the derivation of corporate call management project volume variable costs of \$288,576,217.

Corporate Call Management Volume Variable Costs

Cost element	Call centers	Learning centers	Total 1999 budget	Annual deflator	Total 1999 budget deflated to 1998
Labor	\$2,996,400	\$2,080,300	\$5,076,700	3.80%	\$4,890,848
Supplies	\$3,947,800	\$124,500	\$4,072,300	2.50%	\$3,972,976
Furniture & equipment	\$0	\$14,600	\$14,600	2.50%	\$14,244
Services & maintenance	\$4,417,800	\$287,900	\$4,705,700	2.50%	\$4,590,927
Contractual services	\$149,497,900	\$4,946,200	\$154,444,100	2.50%	\$150,677,171
Rent	\$7,379,100	\$2,254,200	\$9,633,300	2.50%	\$9,398,341
Travel	\$150,800	\$0	\$150,800	2.50%	\$147,122
Utilities	\$2,570,800	\$156,500	\$2,727,300	3.40%	\$2,637,621
Depreciation	\$34,803,300	\$953,300	\$35,756,600	2.50%	\$34,884,488
Communications	\$73,677,480	\$3,685,000	\$77,362,480	0.00%	\$77,362,480
Total	\$279,441,380	\$14,502,500	\$293,943,880		\$288,576,217

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OCA/USPS-T22-25. Please refer to your Worksheet C-2.

- a. In the column "CS 6 & 7," please confirm that the "Total Costs" figure of \$11,461,475 is the Base Year (herein BY) accrued cost of Cost Segments 6 & 7. If you do not confirm, please explain.
- b. Please confirm that the BY accrued cost of Cost Segments 6 & 7 is \$11,461,471, found in W/S 6.0.4 of USPS-T-5, WP B. If you do not confirm, please explain.
- c. Please identify the source for, and provide citations to, all figures in the column "CS 6 & 7."

RESPONSE:

- a. Confirmed.
- b. Redirected to witness Alexandrovich.
- c. USPS-T-5, Exhibit USPS-5A, Costs Segments and Components Base Year 1996.

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OCA/USPS-T22-26. Please refer to your Worksheet C-2.

- a. In the column "CS 10," please confirm that the "Total Costs" figure of \$3,377,062 is the BY accrued cost of Cost Segment 10. If you do not confirm, please explain.
- b. In the column "CS 10," please confirm that the "Attributable figure" of \$1,509,985 is the sum of \$1,373,846 (Evaluated Routes) and \$136,139 (Other Routes) from W/S 10.0.1 of USPS-T-5, WP B. If you do not confirm, please explain.
- c. Please identify the source for, and provide citations to, all figures in the column "CS 10."

RESPONSE:

- a. Confirmed.
- b. Redirected to witness Alexandrovich.
- c. USPS-T-5, Exhibit USPS-5A, Costs Segments and Components Base Year 1996.

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OCA/USPS-T22-27. Please refer to your Worksheet C-2. Please confirm that, in the Base Year, you are distributing 0.002217 percent, or \$1,150, of the volume variable scanning infrastructure capital and program costs to post office boxes. If you do not confirm, please explain.

RESPONSE:

Confirmed.

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OCA/USPS-T22-28. Please refer to your testimony at page 1. Please confirm that delivery confirmation service will be provided only to Priority Mail and Standard B customers. If you do not confirm, please explain.

RESPONSE:

Confirmed.

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OCA/USPS-T22-29. Please refer to your Worksheet C-2.

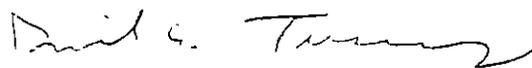
- a. Please confirm that the \$51,851,000 of volume variable Scanning Infrastructure Capital and Program Costs are distributed to the mail classes and services identified in Worksheet C-2. If you do not confirm, please explain.
- b. Please confirm that the \$51,851,000 of volume variable Scanning Infrastructure Capital and Program Costs are distributed to determine Base Year attributable costs for the mail classes and services identified in Worksheet C-2. If you do not confirm, please explain.
- c. Please explain the rationale for distributing \$51,245,900 ($\$51,851.0 - (\$420.8 + \$184.3)$) of volume variable Scanning Infrastructure Capital and Program Costs to mail classes and services that are ineligible for delivery confirmation service.
- d. Please identify Postal Service witnesses that utilize the figures in the column "Distributed amount."

RESPONSE:

- a. Not confirmed. The \$51,851,000 of Scanning Infrastructure Capital and Program Costs are total costs. A subset of this total, \$24,590,800, represents the volume variable portion, which is distributed to the mail classes and services in Worksheet C-2.
- b. Not confirmed. The \$51,851,000 of volume variable costs are used in the roll forward to determine Test Year 1998 before rates costs, not Base Year 1996 costs .
- c. Please see my response to OCA/USPS-T22-20c.
- d. Witness Patelunas (USPS-T-15).

DECLARATION

I, David E. Treworgy, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

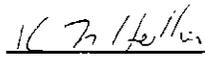


DAVID E. TREWORGY

Dated: 9/30/97

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.



Kenneth N. Hollies

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September 30, 1997